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INTRODUCTION

Michigan Head Start Association (MHSA) entered into contracts #ADMIN-01-99023-03, #ADMIN-04-99023-01, #ADMIN-04-99024, and #ADMIN-05-99023 with the Department of Human Services (DHS). These contracts required MHSA to provide training through the Head Start State Collaboration Program (HSSCP) and the Infant/Toddler Caregiver (ITC) fund, and to administer the Early Head Start Program (EHS) through the Community Action Agencies, who provided Early Head Start Services in their local areas. The MHSA contracts listed above covered the period October 1, 2002 through September 30, 2005. Each contract was associated with one or more Program Cost Accounts (PCA). Each PCA had a budget that identified the cost items that could be charged to it. The contract amounts and PCA's follow:

<u>Contract Number</u>	<u>PCA</u>	<u>Contract Amount</u>
ADMIN-01-99023-03	11442	\$335,966.00
ADMIN-01-99023-03	32146	\$750,000.00
ADMIN-04-99023-01	32110	\$750,000.00
ADMIN-04-99024	11442	\$270,987.38
ADMIN-05-99023	11539*	\$ 80,000.00
ADMIN-05-99023	11542	\$268,166.72
ADMIN-05-99023	32160	\$510,000.00

* Supplemental

MHSA was reimbursed for the actual costs incurred in providing these services, through submission of monthly billings to DHS.

SCOPE

The Office of Internal Audit performed an audit of MHSA for the period October 1, 2002 through March 31, 2005. The purpose of our audit was to determine if their billings were accurate, and if the costs charged were allowable per the terms of the contract and properly supported by the accounting records and other documentation.

EXECUTIVE SUMMARY

Based on our audit, we concluded that some of the billings submitted by MHSA for the contracts were not accurate, and some of the costs charged were not allowable or properly supported by the accounting records. We also concluded that MHSA over billed DHS by \$110,749.89 for the period October 1, 2002 through March 31, 2005 for the contracts listed above. The following Schedule of Findings and Recommendations provides details of the amounts overbilled by fiscal year, contract number, and PCA. Our report recommends that the Children's Services Administration initiate the process to recoup \$110,749.89 from MHSA.

MICHIGAN HEAD START ASSOCIATION, INC. RESPONSE

MHSA has reviewed all findings and recommendations included in this report. They responded in a letter dated January 20, 2006 that they were unable to locate additional documentation for findings 1, 5, 6, and 13, and that they believe amounts in findings 2 (\$130.56), 10 (\$64.00) and 14 (\$495.00) are immaterial. A summary of their response for each of the other findings in this report is included after each finding.

FINDINGS AND RECOMMENDATIONS

2002-2003

Contract #ADMIN-01-99023-03, PCA11442

Occupancy

1. MHSA overbilled DHS \$2,365.00 in rent expense on the September 2003 billing. They billed DHS \$3,180.00 based on a journal entry for which they did not have supporting documentation. The September billing should have only included the DHS portion of the September rent expense, which was \$815.00. Therefore DHS was over billed \$2,365.00 (\$3,180.00 - \$815.00).

Supplies

2. MHSA over charged DHS for Supplies on the September 2003 billing. MHSA paid one invoice twice and included both charges on the DHS billing. The amount over billed was \$130.56. Also, MHSA overbilled DHS \$3,792.00 in September for two computers. The computers were shipped on October 6, 2003. The actual payment was processed on October 20, 2003, which was in the next fiscal year. Computers were not included in the supplies budget for the 2002-2003 contract. The total amount over billed for supplies was \$3,922.56. MHSA should bill DHS for only expenses allowable in the contract budget, and should ensure their charges are accurate.

Response: MHSA responded that the accrual method is an acceptable accounting procedure and valid for encumbering liabilities, and therefore they believe that the computer purchase is an allowable expense.

Auditor Comment: The accrual method is acceptable as long as it is consistently used. MHSA did not consistently use the accrual method. In addition, computer purchase was not an allowable cost per the terms of the contract budget.

Miscellaneous-Training Costs

3. MHSA overbilled DHS \$3,000 for training costs under the Miscellaneous Line Item in September 2003. An MHSA employee provided the training, and was not paid the \$3,000. MHSA prepared two invoices of \$1500 each for the training sessions. There was no record of the expense in the General Ledger or Check Register. MHSA billed DHS because this is the amount that DHS would be paying if a Regional 4C Office were to perform the training.

Response: MHSA responded that their employee who provided the training was certified to do so and that they charged DHS the same amount that they would have to pay a Regional 4C Office for this training.”

Auditor Comment: For an employee to provide the training, MHSA would have needed to include the trainer’s position in the contract budget and billed that employee’s salary and related costs to DHS for the time actually spent providing the training.

Miscellaneous-Meetings

4. MHSA overbilled DHS \$3,250.00 on the September 2003 billing for a general conference expense for meetings. MHSA has documentation for 33 ITC participants who attended the conference. The amount for each registration was \$125.00. The original charge to DHS was \$7,375.00 for 59 ITC participants. MHSA should bill DHS for the correct number of ITC participants.

Miscellaneous

5. MHSA overbilled DHS \$4,500 in March 2003 and \$7,125 in September 2003 for miscellaneous expense. They billed \$14,494.88 in March, but their transaction detail ledger included only \$9,994.88 for training costs, meetings, parking and advisory committee meetings ($\$14,494.88 - \$9,994.88 = \$4,500.00$). MHSA billed \$46,892.19 for miscellaneous expense in September, but their transaction detail ledger included only \$39,767.19 for training costs, meetings, parking, and out-of-state travel. The

amount overcharged was \$7,125.00 (\$46,892.19 - \$39,767.19). The contract requires that MHSA bill for actual costs. The total amount overbilled for March and September was \$11,625.00 (\$4,500.00 + \$7,125.00).

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$24,162.56 (\$2,365.00 + \$3,922.56 + \$3,000.00 + \$3,250.00 + \$11,625.00) from MHSA for unallowable expenses billed to contract #ADMIN-01-99023-03, PCA11442.

WE ALSO RECOMMEND that Children's Services Administration remind MHSA that they may only bill for expenses that are specified in the contract budget and are supported by their accounting records and back-up documentation.

Contract #ADMIN-01-99023-03, PCA32146

Miscellaneous – Administrative Fee

6. MHSA overbilled DHS \$39,000.00 for an administrative fee under PCA 32146. The administrative fee was not included in the contract budget for PCA 32146. The contract budget for PCA 11442 included an administrative fee, however MHSA had no documentation to support the administrative fee. MHSA charged DHS \$3,250 each month, for a total of \$39,000.00, which was the amount included in the budget for PCA 11442. MHSA did not have a General Ledger account for this expense, nor did they have documentation of what costs were included in this charge. MHSA should have charged the proper contract and should have documentation to support the administrative fee.

Contracted Services

7. MHSA overbilled DHS \$20,518.00 because they allowed a sub-grantee to carry over funds into the 2003-2004 fiscal year. MHSA informed us that they sought approval for this from their DHS Contract Administrator, and received verbal approval. No one at MHSA or DHS could provide documentation of the approval. The sub-grantee should have returned unspent funds at the fiscal year end.

Response: MHSA responded that they received verbal approval from their contract administrator on October 7, 2004 for allowing the use of funds in fiscal year 2004-2005. They also stated that all carry-over funds were utilized for purposes of the Early Head Start expansion pilot project for which they were intended.

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$59,518.00 (\$39,000.00 + \$20,518.00) for unallowable and undocumented charges to contract #ADMIN-01-99023-03, PCA32146.

2003-2004

Contract #ADMIN-04-99023-01, PCA32110

Miscellaneous – Administrative Fee

8. MHSA overbilled DHS \$6,250.00 for administrative fees for contract #ADMIN-04-99023-01, PCA 32110. Administrative fees were not included in the contract budget for this contract. In addition, MHSA did not have documentation to support the fee.

Response: MHSA responded that the charge to the incorrect PCA was an oversight and was corrected after the auditor discovered it. MHSA also stated that it worked to establish stronger internal controls in 2005 to clearly document costs included in administrative fees. In addition, they stated that the administrative fees charged were utilized for the intended purposes under the contract.

Contracted Services Charged to Wrong Fiscal Year

9. MHSA paid one Community Action Agency (CAA) \$25,000.00 on September 30, 2003 for the fiscal year 2002-2003, although this CAA incurred actual expenses of

only \$10,833.03 for this period. They were over paid \$14,166.97 (\$25,000.00 - \$10,833.03). MHSA allowed the CAA to carry over the balance to fiscal year 2003-2004. For the period October 1, 2004 to June 1, 2004 the CAA's total expense was \$17,699.86. MHSA then paid the CAA the difference owed, \$3,532.89 (\$17,699.86-14,166.97 = \$3,532.89). MHSA didn't properly account for expenses by fiscal year for this CAA and in reporting to DHS.

Response: MHSA responded that the CAA was only paid for expenses incurred per the actual cost contract, and that they currently adhere to a very strict year-end closing for costs incurred and billed to the DHS contract."

Miscellaneous-ITC Scholarships

10. MHSA overbilled DHS \$64.00 because they voided a check for an expense that was charged to DHS. The check was voided in April 2004. We did not find documentation that MHSA ever credited the DHS billing for the amount of the voided check.

Overpayment Amount not Refunded

11. MHSA was overpaid \$21,313.00 for contract #ADMIN-04-99023-01, PCA32110 for the year ended September 30, 2004. We found documentation that MHSA had returned \$19,934.39 of the overpaid amount via a \$10,000 adjustment to a grantee and a \$9,934.39 reimbursement to DHS. The two adjustments were made via adjusted billings after the September 30, 2004 billing was paid. Therefore the amount of the overpayment remaining to be recouped is \$1,378.61 (\$21,313.00 - \$19,934.39).

Response: MHSA responded that the \$1,378.61 difference is the amount of line-item-overages during the contract period that are allowable based on approved line item transfers.

Auditor Comment: We found no line adjustment approvals in the contract payment file for this contract's budget.

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$7,692.61 (\$6,250.00 + \$64.00 + \$1,378.61) from MHSA for overbilled expenses and overpayments that have not been returned to DHS for contract # ADMIN-04-99023-01, PCA 32110.

WE ALSO RECOMMEND that Children's Services Administration ensure that MHSA bills DHS for expenses in the proper fiscal year.

Contract #ADMIN-04-99024, PCA11442

Documentation for December and March Billings

12. MHSA did not have back up documentation for the December 2003 and March 2004 billings. The support to the billing is necessary to identify the General Ledger accounts that are combined for the DHS billing. The General Ledger is the link to the original documentation for the expenses charged on the billing. We were unable to trace \$11.81 of the December 2003 billing and \$596.54 of the March 2004 billing to documents that were recorded on the General Ledger. Therefore the total unsupported charges for these two months was \$608.35.

Miscellaneous – Administrative Fee

13. MHSA overbilled DHS \$8,750.00 for administrative fees charged to contract # ADMIN-04-99024, PCA 11442. MHSA had no documentation of what was included in the fee or how it was calculated.

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$9,358.35 (\$608.35 + \$8,750.00) from MHSA for the undocumented expense charged to DHS for contract # ADMIN-04-99024, PCA 11442.

WE ALSO RECOMMEND that Children's Services Administration work with MHSA to ensure that they retain proper backup documentation for each billing.

2004-2005

Contract #ADMIN-05-99023, PCA11539 Supplemental

Miscellaneous

14. MHSA overbilled DHS \$495.00 because they billed twice for the same expense for Fiscal Management Training in February 2005 and April 2005. DHS paid both billings.

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$495.00 from MHSA for the double billed expense charged to DHS.

Contract #ADMIN-05-99023, PCA11542

Miscellaneous – Administrative Fees

15. MHSA overbilled DHS \$8,375.00 for administrative fees charged to contract # ADMIN-05-99023, PCA 11542. MHSA provided a listing of expenses that were included in the administrative fee. However, they did not have documentation to support that the expenses were properly allocated to DHS and other funding sources.

Response: MHSA responded that they provided a detail of expenses as they related to administrative fees billed, and that they established stronger internal controls in 2005 to clearly document costs included in administrative fees. They also stated that the administrative fees charged were utilized for the intended purposes under the contract and no payment is required.”

Auditor Comment: The detail of expenses received in the response did not match the total amount of the administrative expense in the contract budget. MHSA did not provide documentation to verify that the expenses were not also charged to another funding source.

Miscellaneous – Speaker for Training Event

16. MHSA overbilled DHS \$1,148.37 for a featured speaker at an MHSA training event.

MHSA paid the speaker \$4,000 and billed the entire amount to DHS. The contract between the speaker and MHSA specified payment of \$3,000 for services plus flight, and a room for one night. There was no provision in the agreement for meals. We also found that the speaker's bill included a room service charge for food totaling \$42.32. The total bill from the hotel was billed to DHS. We also found two other speakers that had charged room service meals to their room when that was not provided in their agreement. The total for the meals for these three speakers was \$148.37. Therefore MHSA overbilled \$1,000.00 for the speaker's contracted fee and \$148.37 for the incorrectly charged meals.

Response: MHSA responded that an employee and the speaker amended the original contract between MHSA and the speaker via phone, but did not note this in the original contract. MHSA added that a DHS representative informed them that she verbally approved this change. They also stated that they believe that it is the industry standard and was the intent of MHSA to pay for all expenses including meals for speakers at the conference.

WE RECOMMEND that Children's Services Administration initiate the process to recoup \$9,523.37 (\$8,375.00 + \$1,000.00 + \$148.37) from MHSA for disallowed charges to contract #ADMIN-05-99023, PCA11542.

The total overbilled by contract number is as follows:

<u>Contract #</u>	<u>Amount</u>
#ADMIN-01-99023-03, PCA11442	\$24,162.56
#ADMIN-01-99023-03, PCA32146	59,518.00
#ADMIN-04-99023-01, PCA32110	7,692.61
#ADMIN-04-99024, PCA11442	9,358.35
#ADMIN-05-99023, PCA11539	495.00
#ADMIN-05-99023, PCA11542	<u>9,523.37</u>
Total	\$110,749.89